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*Attorneys for the Chapter 11 Debtors and Debtors
In Possession*

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON**

In re:

ASTRIA HEALTH, *et al.*,

Debtors and
Debtors in
Possession.¹

Chapter 11
Lead Case No. 19-01189-11
Jointly Administered

**DEBTORS' STATUS CONFERENCE
REPORT**

HEARING:

Date/Time: December 18, 2019/11:00 a.m.

Location: U.S. Bankruptcy Court,
402 E. Yakima Avenue, Second Floor Courtroom
Yakima, WA

Telephone Conference: (877) 402-9757, Access Code:
7036041

¹ The Debtors, along with their case numbers, are as follows: Astria Health (19-01189-11), Glacier Canyon, LLC (19-01193-11), Kitchen and Bath Furnishings, LLC (19-01194-11), Oxbow Summit, LLC (19-01195-11), SHS Holdco, LLC (19-01196-11), SHC Medical Center - Toppenish (19-01190-11), SHC Medical Center - Yakima (19-01192-11), Sunnyside Community Hospital Association (19-01191-11), Sunnyside Community Hospital Home Medical Supply, LLC (19-01197-11), Sunnyside Home Health (19-01198-11), Sunnyside Professional Services, LLC (19-01199-11), Yakima Home Care Holdings, LLC (19-01201-11), and Yakima HMA Home Health, LLC (19-01200-11).

**STATUS CONFERENCE
REPORT**

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1 Astria Health and the above-referenced affiliated debtors (collectively, the
2 “Debtors”), the debtors and debtors in possession in the above-captioned chapter 11
3 bankruptcy cases (collectively, the “Chapter 11 Cases”), by and through the
4 undersigned counsel, hereby file this report (the “Status Conference Report”), and in
5 support thereof state as follows:

6 **A. Legal Proceedings**

7 **1. Debtor in Possession Financing**

8 On December 13, 2019, the Debtors filed a motion to obtain replacement
9 Debtor in Possession financing [Docket No. 818] to replace its existing financing
10 from JMB Capital Partners Lending, LLC, by lending from a current secured creditor,
11 Lapis Advisers, LP. The hearing on this motion is scheduled for 11:00 a.m. Pacific
12 on December 18, 2019. Objections are required to be filed no later than 11:00 a.m.
13 Pacific on December 17, 2019. The existing Debtor in Possession financing matures
14 on December 31, 2019, and absent repayment by that date, on January 1, 2020, the
15 Debtors will be obligated to pay a Stated Maturity Date Fee of 8% of the outstanding
16 obligation (approximately \$3,024,000). Although JMB Capital gave the Debtors a
17 proposal to extend its DIP financing, the terms presented by Lapis were significantly
18 more favorable to the Debtors.

1 **2. Debtors' Motion to Extend**

2 The Debtors have filed a motion to extend the time for the Debtors to assume
3 or reject non-residential real property leases [Docket No. 791]. The deadline for
4 objections to that motion is December 24, 2019.

5 **B. Refinancing or Alternative Transactions**

6 The Debtors' investment bankers, Piper Jaffray & Co. ("Piper Jaffray") have
7 been sourcing and coordinating a refinancing or alternative transaction on behalf of
8 the Debtors. Piper Jaffray developed marketing materials, including a "teaser" and
9 a confidential information memorandum. Piper Jaffray also established an electronic
10 data room containing key information for parties to conduct in-depth due diligence
11 on the Debtors. To date, Piper Jaffray has sent the teaser to approximately twenty-
12 eight (28) potentially interested parties, eleven (11) of which requested entry into and
13 signed nondisclosure agreements and were granted access to the data room. The
14 Debtors also expect at least one bid proposal to acquire assets no later than December
15 18, 2019 on some or all of the Debtors' hospitals. Additionally, one significant
16 nonprofit hospital chain has been doing due diligence and has requested and been
17 granted a short extension of time to submit its proposal. Piper Jaffray is currently
18 working with several entities exploring providing financing for a plan of
19 reorganization, and Debtors' management has had meetings with those entities. Piper
20 Jaffray contacted approximately 132 financial institutions potentially interested in a
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1 refinancing transaction with the Debtors, with 60 expressing enough interest to sign
2 nondisclosure agreements and request additional information. Parties in both
3 processes have conducted due diligence including management presentations and
4 calls and site visits.

5 **C. Business Operations**

6 The Debtors have historically funded operations at Astria Regional Medical
7 Center (“ARMC”) with excess cash generated by other Debtors’ hospitals and
8 clinics, primarily from Sunnyside, given the continual losses at ARMC. Postpetition,
9 ARMC has been the largest and consistent drain on the Debtors’ DIP Financing funds
10 received from JMB, the existing DIP Lender. Postpetition, ARMC has not improved
11 operationally sufficiently to reach a break-even status, as it continues to require
12 significant cash infusions on a weekly basis. ARMC losses have increased as a result
13 of declining patient utilization (recently ARMC averaged only 30 to 35 patients on a
14 daily basis even though it has over 200 licensed beds), and combined with continued
15 revenue cycle issues, has required a disproportionate allocation of DIP funds used to
16 keep the hospital operating.

17 Moreover, in part because of anecdotal comments and opinions the Patient
18 Care Ombudsman (“PCO”) shared at the last public hearing, ARMC has experienced
19 an increased turnover of nursing staff in the last six to eight weeks, making continued
20 operations of a safe and effective hospital difficult. Notably, the issue the PCO

1 referenced, without explicitly stating, was the absence of *excess* nurses. Her
2 corresponding concern, which was not fully articulated, was that then-currently
3 employed nurses could leave, and without *excess* nurses, such departure could strain
4 the Medical Center's ability to care for patients. Unfortunately, those comments of
5 potential future concerns actually increased uncertainty and, in the Debtors' view,
6 thereby influenced nurse turnover. Replacing employed nurses with temporary
7 staffing nurses is not a long-term solution to ensure patient care remains at a high
8 quality level, and is significantly more expensive. Thus, these uncontextualized
9 comments have had a detrimental impact on ARMC.

10 In addition, other healthcare facilities in the Yakima Valley have increased
11 solicitation of ARMC's nursing staff. This was done, in part, by some entities, by
12 that entities' employees contacting nurses employed by ARMC, telling those nurses
13 that ARMC was closing (which was untrue) and encouraging those nurses to leave
14 ARMC to work for that facility.

15 Finally, on December 2, 2019, the Washington State Department of Health
16 ("DOH") issued a ruling granting Virginia Mason Memorial Hospital a Certificate of
17 Need for an elective PCI program and denying the Debtors' Sunnyside facility a
18 similar Certificate of Need. As is reflected in numerous pleadings filed with the
19 Court, ARMC has a Certificate of Need for elective PCI procedures, including heart
20 catheterization and other elective heart procedures. As such, ARMC was the only
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1 hospital in the City of Yakima allowed to perform elective heart procedures in
2 Yakima. This market differentiator has been a driving force in the Debtors' decision
3 to fund losses at ARMC, as dedication to the community's access to healthcare is
4 paramount.

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6 Dated: December 17, 2019

DENTONS US LLP
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7
8 By /s/ Samuel R. Maizel
SAMUEL R. MAIZEL

9 *Attorneys for the Chapter 11 Debtors*
10 *and Debtors In Possession*
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